

NORWALK COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Norwalk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2005 Election)</b>		
Tom Phillips	President	2006
George Meinecke	Vice President	2005
Katherine Schmidt	Board Member	2005
Deborah Hobbs	Board Member	2006
Rick Kaul	Board Member	2007
<b>Board of Education (After September 2005 Election)</b>		
Katherine Schmidt	President	2008
George Meinecke	Vice President	2008
Tom Phillips	Board Member	2006
Deborah Hobbs	Board Member	2006
Rick Kaul	Board Member	2007
<b>School Officials</b>		
Dr. Dennis Wulf	Superintendent	2006
Kate Baldwin	Business Manager and District Secretary	2006
Drew Bracken	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Norwalk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Norwalk Community School District, Norwalk, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Norwalk Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2006 on our consideration of the Norwalk Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Norwalk Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2002 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

October 23, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Norwalk Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- Fiscal 2006 General Fund revenues exceeded expenses by \$1,633,700. The excess of revenues over expenses resulted in an increase in the fund balance from \$2,674,848 to \$4,308,548. Revenues were \$16.5 million vs. \$15.9 million in fiscal 2005, and expenditures were \$14.8 million vs. \$14.4 million in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in local, state and federal sources of revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- An increase in interest rates during the past year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$97,700 in fiscal 2005 to \$180,096 in fiscal 2006.
- Financial solvency ratio is a measure of the financial health of a School District used to determine the District's ability to fund outstanding financial liabilities at fiscal year end. A targeted solvency ratio is at or above the 5% level. If a school district's financial solvency is negative, this raises cause for concern. A solvency ratio at or below -3% requires action in the form of a "Workout Plan" by the School District's Board of Directors to correct the financial position of the District.

Norwalk Community School District's solvency ratio for FY2002 was -5.2% (negative).

In FY2003 the Board of Directors of the Norwalk Community School District adopted specific financial goals and procedures to correct this negative solvency position. Below is a recap of the solvency ratios for the past six fiscal years:

FY2001	0.78%
FY2002	-5.08%
FY2003	0.96%
FY2004	7.75%
FY2005	17.51%
FY2006	27.19%
<i>Projected FY2007</i>	<i>33.22%</i>

The District has surpassed the original targeted goal of 5% and has decided to maintain a future solvency ratio of 15%.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Norwalk Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Norwalk Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Norwalk Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

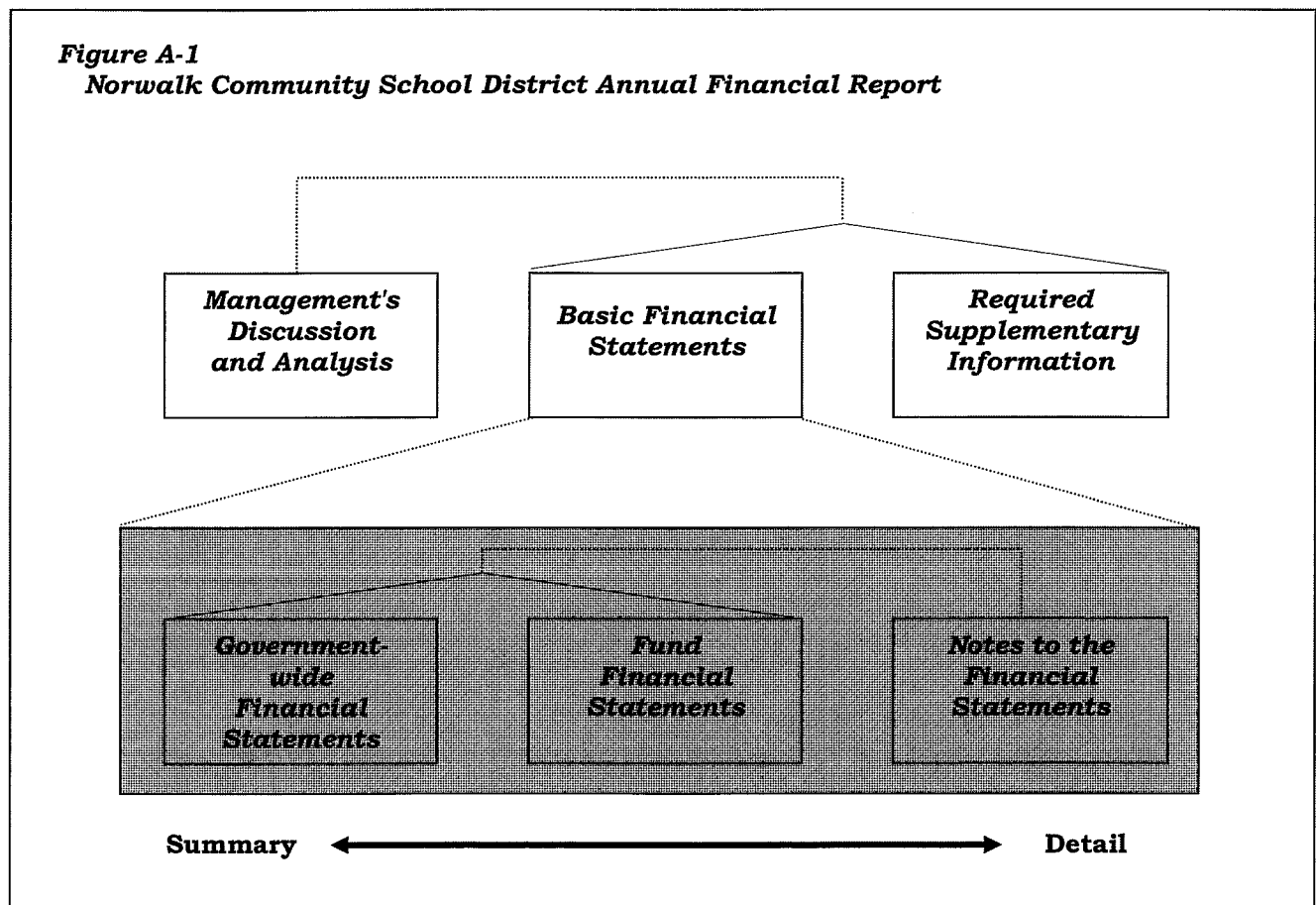


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the



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District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District's internal service funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service fund, the Self-Funded Health Insurance Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 23,776,423	23,845,678	465,877	346,217	24,242,300	24,191,895	0.21%
Capital assets	12,953,701	10,574,708	173,884	147,394	13,127,585	10,722,102	22.43%
Total assets	36,730,124	34,420,386	639,761	493,611	37,369,885	34,913,997	7.03%
Long-term obligations	20,672,668	21,146,016	0	0	20,672,668	21,146,016	-2.24%
Other liabilities	6,302,028	7,127,709	25,121	18,724	6,327,149	7,146,433	-11.46%
Total liabilities	26,974,696	28,273,725	25,121	18,724	26,999,817	28,292,449	-4.57%
Net assets:							
Invested in capital assets, net of related debt	4,761,896	3,322,573	173,884	147,394	4,935,780	3,469,967	42.24%
Restricted	492,443	251,532	0	0	492,443	251,532	95.78%
Unrestricted	4,501,089	2,572,556	440,756	327,493	4,941,845	2,900,049	70.41%
Total net assets	\$ 9,755,428	6,146,661	614,640	474,887	10,370,068	6,621,548	56.61%

The District's combined net assets increased by 56.61%, or \$3,748,520, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$240,911, or 95.78% over the prior year. The increase was primarily a result of the Special Revenue, Physical Plant and Equipment Levy Fund increase in fund balance from a deficit \$202,151 to a positive \$71,903.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$2,041,796, or 70.41%. This increase in unrestricted net assets was a result of the District receiving more in local and state sources in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,610,816	1,473,612	606,223	567,399	2,217,039	2,041,011	8.62%
Operating grants and contributions and restricted interest	1,590,985	1,476,213	184,253	183,648	1,775,238	1,659,861	6.95%
Capital grants and contributions and restricted interest	15,985	25,907	0	0	15,985	25,907	-38.30%
General revenues:							
Property tax	5,986,657	5,495,096	0	0	5,986,657	5,495,096	8.95%
Local option sales and services tax	749,949	667,416	0	0	749,949	667,416	12.37%
Unrestricted state grants	9,564,397	9,466,777	0	0	9,564,397	9,466,777	1.03%
Other	820,782	203,791	15,577	3,833	836,359	207,624	302.82%
Total revenues	20,339,571	18,808,812	806,053	754,880	21,145,624	19,563,692	8.09%
Program expenses:							
Governmental activities:							
Instructional	9,972,101	9,568,648	0	0	9,972,101	9,568,648	4.22%
Support services	4,864,400	4,866,717	0	0	4,864,400	4,866,717	-0.05%
Non-instructional programs	0	8,311	666,300	656,884	666,300	665,195	0.17%
Other expenses	1,894,303	1,663,788	0	0	1,894,303	1,663,788	13.85%
Total expenses	16,730,804	16,107,464	666,300	656,884	17,397,104	16,764,348	3.77%
Changes in net assets	3,608,767	2,701,348	139,753	97,996	3,748,520	2,799,344	33.91%
Beginning Net Assets	6,146,661	3,445,313	474,887	376,891	6,621,548	3,822,204	73.24%
Ending Net Assets	\$ 9,755,428	6,146,661	614,640	474,887	10,370,068	6,621,548	56.61%

In FY03 the District adopted a one-year Instructional Support Levy for the FY04 School Year. In FY04 the School District extended this new Levy for an additional five years beginning with the FY05 School Year. The Board of Directors understands the significantly positive impact the Instructional Support Levy revenues have provided to the General Fund. The current ISL Board adoption will expire in FY2009, but the Board of Directors has issued a directive to renew the ISL for a second five-year period, extending the additional levy until 2014. The ISL is funded by a combination of local property tax revenues and state aid. Below is a recap of the additional this levy has generated for the District over the past four years.

	Local Property Taxes	State Aid	Total ISL Revenues
FY2003	\$522,537	\$166,207	\$688,744
FY2004	\$565,502	\$148,687	\$714,189
FY2005	\$599,292	\$141,965	\$741,257
FY2006	\$637,632	\$138,055	\$775,687
Projected FY2007	\$665,345	\$152,609	\$817,954

The ISL has enabled the School District to achieve the targeted solvency ratios within a four-year period, by retaining these additional revenues to create a reserve fund to insure adequate cash

flow needs and improve the District's overall financial stability. In year two (FY2005) the District achieved the initial goal of reaching a 5% solvency ratio. The District elected to utilize approximately 40% of the ISL revenues to fund new expenditures for curriculum and textbook purchases.

Below is a recap of the District's June 30<sup>th</sup> ending General Fund Balances for the past four fiscal years:

FY2003	\$ 1,071,608
FY2004	\$ 1,197,612
FY2005	\$ 2,674,848
FY2006	\$ 4,308,547
<i>Projected FY2008</i>	<i>\$ 5,568,780</i>

In September 2002, the District renewed the Physical Plant & Equipment Levy (PPEL) for a 10-year levy period beginning with the FY04 School Year. The District renewed the annual levy amount at the State Maximum limit of \$1.34 per \$1000, doubling the annual property tax collections for this levy. In FY04 the District collected an additional \$170,000 in PPEL revenues. This additional revenue was utilized to offset negative fund balances.

These measures to increase District revenues have resulted in a significant increase in ending year fund balances. The creation of these additional revenues are part an action plan that was established to meet one of the District's financial goals. In FY03 School District's Board of Directors adopted the following financial goal with respect to fund balances: "The School District will maintain an Undesignated, Unreserved General Fund Balance equal to a minimum of 7% of total General Fund Expenditures for that school year (Fund Balance to increase as the budget grows; maximum of 12%)." The adoption of this Board financial goal and the subsequent action plan to increase General Fund and PPEL revenues has lead to an increase in Ending Net Assets.

In FY2005 the District implemented a partial self-funding employee health insurance program, assuming some of the employee health insurance claims for hospitalizations up to maximum of \$500 per plan (single or family). This accounting is managed through an internal service fund. In FY2005 the District reduced the total health insurance premiums paid by \$179,891 and incurred \$12,976 in health claims. The partial self-funding insurance program yielded a savings of \$152,979 after covering administrative fees and services in FY2005. In FY2006 the District continued to reduce the total health insurance premiums paid by \$144,680.00 and incurred \$11,398 in health claims. The partial self-funding insurance program yielded a savings of \$133,282 after covering administrative fees and services in FY2006.

### Governmental Activities

Revenues for governmental activities were \$20,339,571 and expenses were \$16,730,804.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,972,101	7,451,876
Support services	4,864,400	4,810,119
Other expenses	1,894,303	1,251,023
Totals	<u>\$ 16,730,804</u>	<u>13,513,018</u>

- 
- The cost financed by users of the District's programs was \$1,610,816.
  - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,606,970.
  - The net cost of governmental activities was financed with \$5,986,657 in property tax, \$749,949 in local option sales and services tax, \$9,564,397 in state foundation aid and \$820,782 in miscellaneous sources.

### **Business-Type Activities**

Revenues of the District's business-type activity were \$806,053 and expenses were \$666,300. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Norwalk Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$17,323,351, above last year's ending fund balances of \$16,703,348. However, the primary reason for the increase was the activity in the Physical Plant and Equipment Levy and General Funds.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Growth during the year in tax, state and federal grants resulted in an increase in revenues. The increase in revenues was partially offset by the District's increase in General Fund expenditures, resulting in a fund balance increase from \$2,674,848 to \$4,308,548.
- The Capital Projects Fund balance was utilized for the issuance of bonds and the collection of local option sales and services tax. The capital improvement expenditures were funded by the issuance of a G.O. Bond of \$6.3 million and a Revenue Bond of \$2.875 million.
- The Debt Service Fund balance was utilized for the payments of principal and interest on bonds. During the previous year, the District crossover refunded \$3,675,000 in G.O. Bonds. Due to the bond requirements the District is required to report the escrow at Bankers Trust that will be used to payoff the original bond issue and show the debt liability on the entity-wide statements.
- The Special Revenue, Management Fund balance increased from \$181,810 to \$209,257. This was due to the increase in property taxes levied to cover property insurance and early retirement incentives.
- The Special Revenue, Physical Plant and Equipment Levy Fund balance increased from a deficit \$202,151 to \$71,903. This was due to the decrease in expenditures.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$474,887 at June 30, 2005 to \$614,640 at June 30, 2006, representing an increase of 29.43%.

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## BUDGETARY HIGHLIGHTS

Over the course of the year, Norwalk Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas except for the non-instructional programs.

The District's revenues were \$1,294,839 more than budgeted revenues, a variance of 6.53%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$13.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 22.43% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$458,180.

The original cost of the District's capital assets was \$21.1 million. Governmental funds account for \$20.8 million with the remainder of \$0.3 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,589,411 at June 30, 2006, compared to \$118,057 reported at June 30, 2005. This increase resulted from the District's capital construction at the secondary campus site for an addition and renovations that are in progress at the year end.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 256,352	27,300	0	0	256,352	27,300	839.02%
Construction in progress	2,589,411	118,057	0	0	2,589,411	118,057	2093.36%
Buildings	9,303,905	9,517,404	0	0	9,303,905	9,517,404	-2.24%
Land improvements	278,021	307,393	0	0	278,021	307,393	-9.56%
Machinery and equipment	526,012	604,554	173,884	147,394	699,896	751,948	-6.92%
Total	\$ 12,953,701	10,574,708	173,884	147,394	13,127,585	10,722,102	22.43%

### Long-Term Debt

At June 30, 2006, the District had \$20,672,668 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of 2.24% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$17,620,000 at June 30, 2006.

The District had outstanding Revenue Bonds payable of \$2,875,000 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 17,620,000	18,050,000	-2.4%
Revenue bonds	2,875,000	2,875,000	0.0%
Early retirement	83,948	167,896	-50.0%
Compensated absences	93,720	53,120	76.4%
Totals	\$ 20,672,668	21,146,016	-2.24%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- The District has experienced increasing enrollment for the past several years and expects greater enrollment increases due to new housing developments in progress within the District. The average annual increase in student enrollment is approximately 35 to 40 students, based in the past five years of data. Below is a recap of the District's enrollment growth for the past six years:

2000-2001	2083.9	61.2
2001-2002	2097.2	13.3
2002-2003	2160.3	63.1
2003-2004	2185.8	25.5
2004-2005	2185.5	-0.3
2005-2006	2238.0	52.5
2006-2007	2269.6	31.6

- The State of Iowa has approved a 4% allowable growth factor for all school districts in FY08 and 4% again in FY2009. This annual percentage increase in the per pupil cost coupled with increased enrollment will provide significant new funding for the School District.
- In FY03 the District adopted a one-year Instructional Support Levy for the FY04 School Year. In FY04 the School District extended this new Levy for an additional five years beginning with the FY05 School Year. This new revenue source has provided the District with the necessary funds to build adequate fund balances to meet cash flow operating needs through the school year and has enabled the School District to create a General Fund balance reserve to provide financial stability if the District is faced with a future reduction in State Aid.
- In September 2002, the District renewed the Physical Plant & Equipment Levy for a 10-year levy period beginning with FY04 School Year. The District renewed the annual levy amount at the State Maximum limit of \$1.34 per \$1000, doubling the annual property tax collects for this levy.
- In January 2003 the school districts of Warren County successfully passed a 10-year, county-wide Local Options Sales Tax Levy to increase school infrastructure funding. This new sales

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tax levy will generate an additional \$525,000 per year for the Norwalk Community School District.

- In February 2005 the District sold \$6.3 million on general obligation bonds to fund school construction. This new debt liability raised the District's Debt Service Levy to the \$4.04, close the legal debt capacity levy limit of \$4.05/\$1000. The District had developed a 20-Year facilities plan and did not intend to issuance any additional general obligation debt until FY2012. Based in recent enrollment increases in our elementary grades and a desire to maintain small student class sizes (lower teacher-pupil ratios) to achieve academic goals, the District has revised our 20-year building plan to move the construction of elementary classroom up from 2012 to 2010. This will require the District to pursue a general obligation bond in 2008, maximizing our debt service levy at the \$4.05 statutory limit. This bond is scheduled to generate approximately \$10 million for construction of building or a building addition.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kate Baldwin, Business Manager, Norwalk Community School District, 906 School Avenue, Norwalk, Iowa, 50211.



## BASIC FINANCIAL STATEMENTS

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
U.S. Treasury Securities on deposit with escrow agent	\$ 3,704,677	0	3,704,677
Other	13,244,431	459,704	13,704,135
Receivables:			
Property tax:			
Delinquent	142,244	0	142,244
Succeeding year	6,014,262	0	6,014,262
Accounts	8,474	884	9,358
Accrued interest	32,442	0	32,442
Due from other governments	629,893	0	629,893
Inventories	0	5,289	5,289
Capital assets, net of accumulated depreciation (Note 4)	12,953,701	173,884	13,127,585
<b>TOTAL ASSETS</b>	<b>36,730,124</b>	<b>639,761</b>	<b>37,369,885</b>
<b>LIABILITIES</b>			
Accounts payable	31,540	21,039	52,579
Salaries and benefits payable	34,630	0	34,630
Accrued interest payable	135,217	0	135,217
Deferred revenue:			
Succeeding year property tax	6,014,262	0	6,014,262
Other	86,379	0	86,379
Unearned revenue	0	4,082	4,082
Long-term liabilities (Note 5):			
Portion due within one year:			
G.O. bonds payable	475,000	0	475,000
Early retirement payable	83,948	0	83,948
Compensated absences payable	93,720	0	93,720
Portion due after one year:			
G.O. bonds payable	17,145,000	0	17,145,000
Revenue bonds payable	2,875,000	0	2,875,000
<b>TOTAL LIABILITIES</b>	<b>26,974,696</b>	<b>25,121</b>	<b>26,999,817</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	4,761,896	173,884	4,935,780
Restricted for:			
Management levy	125,309	0	125,309
Physical plant and equipment levy	71,903	0	71,903
Other special revenue purposes	295,231	0	295,231
Unrestricted	4,501,089	440,756	4,941,845
<b>TOTAL NET ASSETS</b>	<b>\$ 9,755,428</b>	<b>614,640</b>	<b>10,370,068</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 6,349,189	787,875	841,546	0	(4,719,768)	0
Special instruction	2,091,554	226,341	104,944	0	(1,760,269)	0
Other instruction	1,531,358	559,519	0	0	(971,839)	0
	9,972,101	1,573,735	946,490	0	(7,451,876)	0
Support services:						
Student services	495,760	0	0	0	(495,760)	0
Instructional staff services	655,867	0	0	0	(655,867)	0
Administration services	1,700,236	0	0	0	(1,700,236)	0
Operation and maintenance of plant services	1,480,091	0	0	0	(1,480,091)	0
Transportation services	532,446	37,081	17,200	0	(478,165)	0
	4,864,400	37,081	17,200	0	(4,810,119)	0
Other expenditures:						
Facilities acquisitions	62,777	0	0	15,985	(46,792)	0
Long-term debt interest	893,180	0	0	0	(893,180)	0
AEA flowthrough	627,295	0	627,295	0	0	0
Depreciation (unallocated)*	311,051	0	0	0	(311,051)	0
	1,894,303	0	627,295	15,985	(1,251,023)	0
Total governmental activities	16,730,804	1,610,816	1,590,985	15,985	(13,513,018)	0
Business-Type activities:						
Non-instructional programs:						
Nutrition services	666,300	606,223	184,253	0	0	124,176
						124,176
Total	\$ 17,397,104	2,217,039	1,775,238	15,985	(13,513,018)	124,176
General Revenues:						
Property tax levied for:						
General purposes				\$ 4,411,192	0	4,411,192
Capital outlay				467,116	0	467,116
Debt service				1,108,349	0	1,108,349
Local option sales and services tax				749,949	0	749,949
Unrestricted state grants				9,564,397	0	9,564,397
Unrestricted investment earnings				719,468	15,577	735,045
Miscellaneous				101,314	0	101,314
Total general revenues				17,121,785	15,577	17,137,362
Changes in net assets				3,608,767	139,753	3,748,520
Net assets beginning of year				6,146,661	474,887	6,621,548
Net assets end of year				\$ 9,755,428	614,640	10,370,068

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>ASSETS</b>					
Cash and pooled investments:					
U.S. Treasury Securities on deposit with escrow agent	\$ 0	0	3,704,677	0	3,704,677
Other	4,116,198	7,881,194	406,108	550,551	12,954,051
Receivables:					
Property tax					
Delinquent	99,640	0	27,581	15,023	142,244
Succeeding year	4,045,026	0	1,136,636	832,600	6,014,262
Accounts	6,565	0	0	500	7,065
Accrued interest	0	31,941	177	324	32,442
Due from other governments	206,353	404,577	0	18,963	629,893
<b>TOTAL ASSETS</b>	<b>\$ 8,473,782</b>	<b>8,317,712</b>	<b>5,275,179</b>	<b>1,417,961</b>	<b>23,484,634</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 24,322	476	12	1,202	26,012
Salaries and benefits payable	34,630	0	0	0	34,630
Deferred revenue:					
Succeeding year property tax	4,045,026	0	1,136,636	832,600	6,014,262
Other	61,256	0	17,355	7,768	86,379
Total liabilities	4,165,234	476	1,154,003	841,570	6,161,283
Fund balances:					
Reserved:					
Debt service	0	0	4,121,176	0	4,121,176
Talented and gifted	7,587	0	0	0	7,587
Unreserved:					
Designated for special purposes	110,429	671	0	0	111,100
Undesignated:					
General	4,190,532	0	0	0	4,190,532
Capital projects	0	8,316,565	0	0	8,316,565
Management levy	0	0	0	209,257	209,257
Physical plant and equipment levy	0	0	0	71,903	71,903
Other special revenue purposes	0	0	0	295,231	295,231
Total fund balances	4,308,548	8,317,236	4,121,176	576,391	17,323,351
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 8,473,782</b>	<b>8,317,712</b>	<b>5,275,179</b>	<b>1,417,961</b>	<b>23,484,634</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

<b>Total fund balances of governmental funds (page 17)</b>	<b>\$ 17,323,351</b>
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	12,953,701
Blending of the Internal Service Fund to be reflected at an entity-wide basis.	286,261
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(135,217)
Long-term liabilities, including bonds payable, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(20,672,668)</u>
<b>Net assets of governmental activities (page 15)</b>	<b><u><u>\$ 9,755,428</u></u></b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 4,096,849	749,949	1,108,349	781,459	6,736,606
Tuition	839,600	0	0	0	839,600
Other	630,440	383,397	142,989	407,294	1,564,120
State sources	10,609,219	282,110	609	443	10,892,381
Federal sources	263,001	0	0	15,985	278,986
Total revenues	16,439,109	1,415,456	1,251,947	1,205,181	20,311,693
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	6,348,409	0	0	129,358	6,477,767
Special instruction	2,118,210	0	0	0	2,118,210
Other instruction	1,209,173	0	0	315,775	1,524,948
	9,675,792	0	0	445,133	10,120,925
Support services:					
Student services	507,941	0	0	0	507,941
Instructional staff services	560,063	0	0	69,448	629,511
Administration services	1,654,590	0	0	33,090	1,687,680
Operation and maintenance of plant services	1,341,619	0	0	121,097	1,462,716
Transportation services	466,737	0	0	59,829	526,566
	4,530,950	0	0	283,464	4,814,414
Other expenditures:					
Facilities acquisitions	0	2,713,893	0	117,470	2,831,363
Long-term debt:					
Principal	0	0	430,000	0	430,000
Interest and fiscal charges	0	0	896,321	0	896,321
AEA flowthrough	627,295	0	0	0	627,295
	627,295	2,713,893	1,326,321	117,470	4,784,979
Total expenditures	14,834,037	2,713,893	1,326,321	846,067	19,720,318
Excess(deficiency) of revenues over(under) expenditures	1,605,072	(1,298,437)	(74,374)	359,114	591,375
Other financing sources(uses):					
Transfer in	0	0	103,494	0	103,494
Transfer out	0	(103,494)	0	0	(103,494)
Compensation for loss of capital assets	27,878	0	0	0	27,878
Sale of equipment	750	0	0	0	750
Total other financing sources(uses)	28,628	(103,494)	103,494	0	28,628
Net change in fund balances	1,633,700	(1,401,931)	29,120	359,114	620,003
Fund balance beginning of year	2,674,848	9,719,167	4,092,056	217,277	16,703,348
Fund balance end of year	\$ 4,308,548	8,317,236	4,121,176	576,391	17,323,351

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 19) \$ 620,003

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 2,828,750	
Depreciation expense	(439,930)	
Loss on disposal of capital assets	<u>(9,827)</u>	2,378,993

Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. 133,282

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Repaid	430,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,141

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 83,948	
Compensated Absences	<u>(40,600)</u>	43,348

Changes in net assets of governmental activities (page 16) \$ 3,608,767

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 459,704	290,380
Receivables:		
Accounts	884	1,409
Inventories	5,289	0
Capital assets, net of accumulated depreciation(Note 5)	173,884	0
TOTAL ASSETS	<u>639,761</u>	<u>291,789</u>
LIABILITIES		
Accounts payable	21,039	5,528
Unearned revenue	4,082	0
TOTAL LIABILITIES	<u>25,121</u>	<u>5,528</u>
NET ASSETS		
Investment in capital assets, net of related debt	173,884	0
Unrestricted	440,756	286,261
TOTAL NET ASSETS	<u>\$ 614,640</u>	<u>286,261</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	Business-Type	
	Activities:	Governmental
	Enterprise	Activities:
	Fund	Internal
	School	Service
	Nutrition	Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 606,223	1,164,170
TOTAL OPERATING REVENUES	606,223	1,164,170
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	191,094	0
Benefits	67,119	1,018,575
Services	50,237	12,313
Supplies	339,600	0
Depreciation	18,250	0
TOTAL OPERATING EXPENSES	666,300	1,030,888
OPERATING INCOME (LOSS)	(60,077)	133,282
NON-OPERATING REVENUES:		
State sources	8,736	0
Federal sources	175,517	0
Interest income	15,577	0
TOTAL NON-OPERATING REVENUES	199,830	0
Changes in net assets	139,753	133,282
Net assets beginning of year	474,887	152,979
Net assets end of year	\$ 614,640	286,261

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 577,705	0
Cash received from miscellaneous operating activities	26,380	1,162,761
Cash payments to employees for services	(258,213)	0
Cash payments to suppliers for goods or services	(344,201)	(1,025,360)
Net cash provided by operating activities	1,671	137,401
Cash flows from non-capital financing activities:		
State grants received	8,736	0
Federal grants received	142,304	0
Net cash provided by non-capital financing activities	151,040	0
Cash flows from capital and related financing activities:		
Acquisition of assets	(44,740)	0
Net cash used in capital and related financing activities	(44,740)	0
Cash flows from investing activities:		
Interest on investments	15,577	0
Net cash provided by investing activities	15,577	0
Net increase in cash and cash equivalents	123,548	137,401
Cash and cash equivalents at beginning of year	336,156	152,979
Cash and cash equivalents at end of year	\$ 459,704	290,380
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (60,077)	133,282
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	33,213	0
Depreciation	18,250	0
Decrease in inventories	4,772	0
Increase in accounts receivable	(884)	(1,409)
Increase in accounts payable	7,651	5,528
Decrease in deferred revenue	(1,254)	0
Net cash provided by operating activities	\$ 1,671	137,401
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 459,704	290,380

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$33,213.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Norwalk Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Norwalk, Iowa, and the predominate agricultural territory in Warren County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Norwalk Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Norwalk Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Warren County Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded health insurance operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balances are for a sign in the Capital Projects Fund and various resale, fundraisers and donations accounts in the General Fund.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the other expenditures functional area exceeded the amount budgeted.



(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 7,254,358</u>

At June 30, 2006, the District had investments in the IPASeducation as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 2,518,306</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service. The investments in the IPASeducation are registered and not subject to rating.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities and certificates of deposit are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities and certificates are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2006, the District had investments in U.S. Treasury Securities as follows:

<u>Type</u>	<u>Fair Value</u>
U.S. Treasury Securities	<u>\$ 3,704,677</u>

At June 30, 2006, the District had investments in Certificates of Deposit maturing over a year as follows:

<u>Type</u>	<u>Fair Value</u>
Certificate of Deposits	<u>\$ 6,000,000</u>

**(3) Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 103,494</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 27,300	229,052	0	256,352
Construction in progress	118,057	2,471,354	0	2,589,411
Total capital assets not being depreciated	<u>145,357</u>	<u>2,700,406</u>	<u>0</u>	<u>2,845,763</u>
Capital assets being depreciated:				
Buildings	14,499,448	78,007	3,015	14,574,440
Land improvements	923,561	0	131,539	792,022
Machinery and equipment	2,594,457	50,337	72,205	2,572,589
Total capital assets being depreciated	<u>18,017,466</u>	<u>128,344</u>	<u>206,759</u>	<u>17,939,051</u>
Less accumulated depreciation for:				
Buildings	4,982,044	291,506	3,015	5,270,535
Land improvements	616,168	19,545	121,712	514,001
Machinery and equipment	1,989,903	128,879	72,205	2,046,577
Total accumulated depreciation	<u>7,588,115</u>	<u>439,930</u>	<u>196,932</u>	<u>7,831,113</u>
Total capital assets being depreciated, net	<u>10,429,351</u>	<u>(311,586)</u>	<u>9,827</u>	<u>10,107,938</u>
Governmental activities capital assets, net	<u>\$ 10,574,708</u>	<u>2,388,820</u>	<u>9,827</u>	<u>12,953,701</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 308,473	44,740	4,267	348,946
Less accumulated depreciation	161,079	18,250	4,267	175,062
Business-type activities capital assets, net	<u>\$ 147,394</u>	<u>26,490</u>	<u>0</u>	<u>173,884</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 15,286
Other	10,408

Support services:

Instructional staff services	34,003
Administration	6,809
Operation and maintenance	26,446
Transportation	35,927
	<u>128,879</u>

Unallocated depreciation 311,051

Total governmental activities depreciation expense \$ 439,930

Business-type activities:

Food services \$ 18,250

**(5) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 18,050,000	0	430,000	17,620,000	475,000
Revenue bonds	2,875,000	0	0	2,875,000	0
Early Retirement	167,896	0	83,948	83,948	83,948
Compensated absences	53,120	93,720	53,120	93,720	93,720
Total	<u>\$ 21,146,016</u>	<u>93,720</u>	<u>567,068</u>	<u>20,672,668</u>	<u>652,668</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 1997			Bond Issue of April 1, 1998 Series A		
	Interest		Principal	Interest		Principal
	Rates			Rates		
2007	5.15	% \$	5,000	199,490	4.40	% \$ 350,000
2008	5.20		5,000	199,232	4.45	370,000
2009	5.25		5,000	198,973	4.55	390,000
2010	5.25		380,000	198,710	-	-
2011	5.35		400,000	178,760	-	-
2012	5.40		420,000	157,360	-	-
2013	5.40		435,000	134,680	-	-
2014	5.40		460,000	111,190	-	-
2015	5.50		500,000	86,350	-	-
2016	5.50		520,000	58,850	-	-
2017	5.50		550,000	30,250	-	-
2018			-	-	-	-
2019			-	-	-	-
2020			-	-	-	-
2021			-	-	-	-
2022			-	-	-	-
2023			-	-	-	-
2024			-	-	-	-
2025			-	-	-	-
Total			\$ 3,680,000	1,553,845		\$ 1,110,000 101,565

Year Ending June 30,	Bond Issue of May 1, 2001			Bond Issue of May 1, 2005		
	Interest		Principal	Interest		Principal
	Rates			Rates		
2007	4.50	% \$	25,000	137,530	4.25	% \$ 95,000
2008	4.50		25,000	136,406	4.50	110,000
2009	4.50		25,000	135,280	4.50	120,000
2010	4.50		25,000	134,156	4.50	155,000
2011	4.50		25,000	133,030	4.50	165,000
2012	4.50		40,000	131,906	4.50	120,000
2013	4.55		55,000	130,106	4.50	120,000
2014	4.60		60,000	127,601	4.50	115,000
2015	4.70		50,000	124,841	4.50	120,000
2016	4.75		55,000	122,491	4.50	135,000
2017	4.80		60,000	119,880	4.40	135,000
2018	5.00		540,000	117,000	4.40	220,000
2019	5.00		570,000	90,000	4.40	225,000
2020	5.00		600,000	61,500	4.50	235,000
2021	5.00		630,000	31,500	4.50	245,000
2022			-	-	4.25	915,000
2023			-	-	4.30	960,000
2024			-	-	4.35	1,000,000
2025			-	-	4.40	1,045,000
Total			\$ 2,785,000	1,733,227		\$ 6,235,000 3,920,322

Year Ending June 30,	Bond Issue of July 1, 2004			Total		
	Interest	Principal	Interest	Principal	Interest	Total
	Rates					
2007	3.25 %	\$ -	151,669	\$ 475,000	811,305	1,286,305
2008	3.25	30,000	151,669	540,000	790,485	1,330,485
2009	3.50	30,000	150,692	570,000	766,708	1,336,708
2010	3.75	410,000	149,643	970,000	741,127	1,711,127
2011	4.00	425,000	134,269	1,015,000	697,701	1,712,701
2012	4.00	440,000	117,269	1,020,000	650,753	1,670,753
2013	4.00	450,000	99,669	1,060,000	603,273	1,663,273
2014	4.00	470,000	81,668	1,105,000	553,877	1,658,877
2015	4.00	505,000	62,869	1,175,000	502,302	1,677,302
2016	4.00	515,000	42,669	1,225,000	446,852	1,671,852
2017	4.13	535,000	22,069	1,280,000	388,967	1,668,967
2018		-	-	760,000	327,828	1,087,828
2019		-	-	795,000	291,148	1,086,148
2020		-	-	835,000	252,748	1,087,748
2021		-	-	875,000	212,172	1,087,172
2022		-	-	915,000	169,648	1,084,648
2023		-	-	960,000	130,760	1,090,760
2024		-	-	1,000,000	89,480	1,089,480
2025		-	-	1,045,000	45,980	1,090,980
Total		\$ 3,810,000	1,164,155	\$ 17,620,000	8,473,114	26,093,114

#### Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Issue dated June 1, 2005			
	Interest	Principal	Interest	Total
	Rate			
2007	2.95 %	\$ -	100,722	100,722
2008	2.95	320,000	96,002	416,002
2009	3.05	330,000	86,250	416,250
2010	3.20	340,000	75,778	415,778
2011	3.63	350,000	63,994	413,994
2012	3.63	365,000	51,034	416,034
2013	3.63	375,000	37,622	412,622
2014	3.75	390,000	23,513	413,513
2015	4.00	405,000	8,100	413,100
Total		\$ 2,875,000	543,015	3,418,015

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$287,500 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

#### Early Retirement

The District offered a voluntary early retirement plan to its certified employees and administration. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive is 40% of the employee's salary and \$30 per day for unused sick leave days with a maximum of 115 days. The cost of early retirement payments expected to liquidated currently are recorded as a liability of the government-wide financial statements representing the District's commitment to fund non-current early retirement of \$83,948.

#### **(6) General Obligation Crossover Refunding Bonds**

On July 1, 2004, the District issued \$3,810,000 of general obligation refunding bonds, with interest rates ranging from 3.25% to 4.125%, for a crossover refunding of a portion of the general obligation bonds issued May 1, 1997. The District entered in to an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$3,675,000 principal on the refunded general obligation bonds when they become callable on May 1, 2017 and the interest from July 1, 2004 to and including May 1, 2017 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

#### **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined

benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$537,603, \$521,588, and \$564,267 respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District has a partially self-funded health insurance plan. The District purchases commercial insurance from Blue Cross Blue Shield. The maximum cost to the District per plan is \$500.

Norwalk Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$627,295 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Construction Commitment**

The District has entered into various contracts totaling \$7,343,187 for the capital construction of the secondary campus building addition and renovations. As of June 30, 2006, costs of \$2,589,411 had been incurred against the contracts. The balance of \$4,753,776 remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION



NORWALK COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 9,140,326	621,800	9,762,126	8,659,564	8,659,564	1,102,562
State sources	10,892,381	8,736	10,901,117	10,843,483	10,843,483	57,634
Federal sources	278,986	175,517	454,503	325,000	325,000	129,503
Total revenues	20,311,693	806,053	21,117,746	19,828,047	19,828,047	1,289,699
Expenditures:						
Instruction	10,120,925	0	10,120,925	10,274,952	10,774,952	654,027
Support services	4,814,414	0	4,814,414	5,321,290	5,921,290	1,106,876
Non-instructional programs	0	666,300	666,300	670,670	700,670	34,370
Other expenditures	4,784,979	0	4,784,979	4,731,490	5,231,490	446,511
Total expenditures	19,720,318	666,300	20,386,618	20,998,402	22,628,402	2,241,784
Excess of revenues over expenditures	591,375	139,753	731,128	(1,170,355)	(2,800,355)	3,531,483
Other financing sources, net	28,628	0	28,628	15,500	15,500	13,128
Excess of revenues and other financing sources over expenditures	620,003	139,753	759,756	(1,154,855)	(2,784,855)	3,544,611
Balance beginning of year	16,703,348	474,887	17,178,235	12,125,895	12,125,895	5,052,340
Balance end of year	\$ 17,323,351	614,640	17,937,991	10,971,040	9,341,040	8,596,951

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$1,630,000.

OTHER SUPPLEMENTARY INFORMATION

NORWALK COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2006

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds
ASSETS					
Cash and pooled investments	\$ 207,460	260,235	48,630	34,226	550,551
Receivables:					
Property tax					
Current year delinquent	6,120	0	8,903	0	15,023
Succeeding year	325,001	0	507,599	0	832,600
Accounts	0	500	0	0	500
Accrued interest	0	0	0	324	324
Due from other governments	0	0	18,963	0	18,963
TOTAL ASSETS	\$ 538,581	260,735	584,095	34,550	1,417,961
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 1,148	54	0	0	1,202
Deferred revenue:					
Succeeding year property tax	325,001	0	507,599	0	832,600
Other	3,175	0	4,593	0	7,768
	329,324	54	512,192	0	841,570
Fund equity:					
Fund balances:					
Unreserved, undesignated	209,257	260,681	71,903	34,550	576,391
	209,257	260,681	71,903	34,550	576,391
TOTAL LIABILITIES AND FUND EQUITY	\$ 538,581	260,735	584,095	34,550	1,417,961

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total Special Revenue Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	
REVENUES:					
Local sources:					
Local tax	\$ 314,343	0	467,116	0	781,459
Other	19,251	382,234	3,290	2,519	407,294
State sources	186	0	257	0	443
Federal sources	0	0	15,985	0	15,985
TOTAL REVENUES	333,780	382,234	486,648	2,519	1,205,181
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	127,993	0	0	1,365	129,358
Other instruction	0	315,775	0	0	315,775
Support services:					
Instructional staff services	0	0	69,448	0	69,448
Administration services	33,090	0	0	0	33,090
Operation and maintenance of plant services	121,097	0	0	0	121,097
Transportation	24,153	10,000	25,676	0	59,829
Other expenditures:					
Facilities acquisition	0	0	117,470	0	117,470
TOTAL EXPENDITURES	306,333	325,775	212,594	1,365	846,067
Excess of revenues over expenditures	27,447	56,459	274,054	1,154	359,114
FUND BALANCES BEGINNING OF YEAR	181,810	204,222	(202,151)	33,396	217,277
FUND BALANCES END OF YEAR	\$ 209,257	260,681	71,903	34,550	576,391

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance Change	Balance End of Year
D Oviatt Investment Fund	\$ 725	0	725	0	0
Middle School Accounts:					
General Athletics	3,386	2,254	1,003	(2,000)	2,637
Concessions	3,548	5,721	3,349	0	5,920
Chorus	1,496	8,368	8,648	0	1,216
Cross Country	165	70	51	0	184
Boys Basketball	1,819	2,254	1,634	0	2,439
Football	1,535	2,606	2,687	0	1,454
Baseball	240	0	1,764	1,600	76
Boys Track	721	717	384	0	1,054
Wrestling	637	828	437	0	1,028
Girls Basketball	1,288	1,601	2,620	0	269
Volleyball	667	1,378	897	0	1,148
Softball	741	0	1,113	400	28
Girls Track	302	520	253	0	569
Cheerleaders	206	924	741	0	389
Student Council	8,404	5,149	5,517	0	8,036
Art Club	0	4,320	3,854	0	466
Ace Club	224	4,775	4,657	0	342
Annual	1,547	1,358	2,047	0	858
SADD	399	260	266	0	393
High School Accounts:					
General Athletics	27,186	38,556	24,921	(5,593)	35,228
Concessions	5,117	8,823	1,500	(1)	12,439
All School Play	1,251	1,125	852	0	1,524
Speech	684	18	879	177	0
Chorus	90	0	2,669	2,579	0
Dinner Show	1,929	11,888	10,719	0	3,098
Swing Choir	871	49,924	47,497	0	3,298
Band	3,078	8,060	9,017	1,545	3,666
Tri-M Club	130	0	0	0	130
Athletic Letter Club	1,000	0	104	0	896
Cross Country	1,532	2,490	2,762	0	1,260
Swimming	200	0	0	0	200
Boys Basketball	15,504	17,904	12,963	0	20,445
Football	27,121	41,251	22,769	0	45,603
Boys Soccer	2,932	10,734	11,429	0	2,237
Baseball	1,802	26,447	22,932	924	6,241
Boys Track	2,120	2,470	2,425	0	2,165
Boys Tennis	1,266	225	1,488	368	371
Boys Golf	1,885	1,906	2,994	0	797
Wrestling	9,348	7,067	4,301	0	12,114
Weight Room	1,837	0	500	0	1,337
Girls Basketball	10,521	25,537	17,951	0	18,107

NORWALK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance Change	Balance End of Year
High School Accounts(Continued):					
Volleyball	8,288	9,149	7,664	0	9,773
Girls Soccer	2,513	4,944	5,678	0	1,779
Softball	8,560	10,856	12,038	0	7,378
Girls Track	1,509	4,464	4,934	0	1,039
Girls Tennis	1,000	92	985	0	107
Girls Golf	1,619	2,107	2,466	1	1,261
Cheerleaders	2,620	9,612	3,826	0	8,406
Drill Team	2,085	9,954	10,374	0	1,665
Class of 2004	295	0	0	0	295
Class of 2005	133	0	0	0	133
Class of 2006	704	0	693	0	11
Class of 2007	0	11,922	11,715	0	207
Student Council	2,532	5,918	5,841	0	2,609
Art Club	3,923	3,846	5,059	0	2,710
French Club	4,069	1,908	2,855	0	3,122
Spanish Club	4,753	402	978	0	4,177
Annual	8,512	7,835	4,828	0	11,519
Newspaper	378	620	620	0	378
MOC	86	0	0	0	86
National Honor Society	1,336	260	1,446	0	150
SADD	6	373	210	0	169
SES	85	0	0	0	85
Debate	2,345	0	0	0	2,345
Mock Trial	1,181	0	221	0	960
Fanatecs/Pep Club	135	350	1	0	484
Poetry Club	101	94	24	0	171
Total	\$ 204,222	382,234	325,775	0	260,681

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
V Montgomery Memorial	\$ 1,198	35	250	983
J Graham Scholarship	5,111	158	50	5,219
Frederick Scholarship	5,076	1,157	50	6,183
J W Winter Scholarship	20,297	625	100	20,822
L Ghrist Scholarship	215	0	215	0
D Oviatt Scholarship	1,499	44	200	1,343
Norwalk Bank Scholarship	0	500	500	0
	<u>\$ 33,396</u>	<u>2,519</u>	<u>1,365</u>	<u>34,550</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 6,736,606	6,162,512	5,305,313	5,058,678
Tuition	839,600	649,039	651,742	562,761
Other	1,564,120	1,077,267	867,530	873,724
Intermediate sources	0	0	4,100	1,841
State sources	10,892,381	10,674,782	10,020,720	9,561,884
Federal sources	278,986	292,444	1,264,994	419,515
Total	<u>\$ 20,311,693</u>	<u>18,856,044</u>	<u>18,114,399</u>	<u>16,478,403</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 6,477,767	5,454,201	5,472,518	5,280,396
Special instruction	2,118,210	2,808,257	2,788,710	2,595,218
Other instruction	1,524,948	1,329,236	1,282,384	1,398,288
Support services:				
Student services	507,941	534,207	472,981	522,323
Instructional staff services	629,511	722,545	585,660	496,274
Administration services	1,687,680	1,798,041	1,593,549	1,543,304
Operation and maintenance of plant services	1,462,716	1,344,243	1,293,616	1,373,322
Transportation services	526,566	576,734	508,090	461,675
Non-instructional programs	0	11,371	511	12,857
Other expenditures:				
Facilities acquisitions	2,831,363	596,663	1,508,524	261,122
Long-term debt:				
Principal	430,000	375,000	460,000	584,702
Interest and other charges	896,321	548,689	440,749	467,924
AEA flow-through	627,295	612,482	600,251	612,443
Total	<u>\$ 19,720,318</u>	<u>16,711,669</u>	<u>17,007,543</u>	<u>15,609,848</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Norwalk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Norwalk Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Norwalk Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

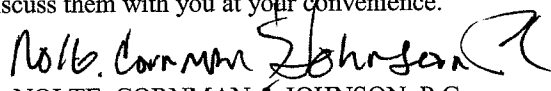
As part of obtaining reasonable assurance about whether Norwalk Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Norwalk Community School District and other parties to whom Norwalk Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Norwalk Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

October 23, 2006

NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-06 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - Wearing team apparel is important factor in creating a team spirit and a sense of pride in representing the Norwalk School District. If the Athletic Director determines that coaches should wear team apparel, the District will request the local athletic booster clubs to provide clothing or team uniform items to the District employees.

Conclusion - Response accepted.

I-C-06 Student Activity Fund - We noted during our audit that the Student Activity Fund purchased some items including ink toner, pens and a copier lease that would appear to be more appropriate in General Fund.

Recommendation - The purchases of ink toner, pens and a copier lease appear to be instructional in nature and should be paid out of the General Fund.

Response - The District will purchase all future office supplies and administrative type purchases related to the Student Activities Office from the General Fund.

Conclusion - Response accepted.

NORWALK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.